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Thomas W. Hayes
Auditor General

October 5, 1987

P-711

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

This letter presents the results of our review of issues related to the State's support of the Peninsula Commute Service (PCS), which provides commuters with train service between San Jose and San Francisco. We determined that, from fiscal year 1980-81 through fiscal year 1984-85, the State spent over \$28 million to fund the operations of the PCS. We also estimated that the State will spend an additional \$11.5 million for fiscal years 1985-86 and 1986-87. Further, the State spent \$50.5 million from fiscal year 1980-81 through fiscal year 1986-87 to fund various capital projects for the PCS, including the purchase of stations, locomotives, and passenger cars. Furthermore, the PCS has shown an increase in its number of passengers from 5.2 million passengers in fiscal year 1983-84 to 5.5 million in fiscal year 1985-86. During the same period, the operating cost per passenger decreased from \$4.59 to \$4.25. Finally, according to an opinion from the Legislative Counsel, the State is not required to provide police services at state-owned train stations on the PCS line if it determines that local police protection is sufficient to protect persons using the stations.

Background

The PCS is the only commuter rail service currently operating in the State, and its line stretches almost 47 miles between San Francisco and San Jose with 26 stations along the route. As of April 5, 1987, the PCS operated 52 trains each weekday. Passenger service has operated over the San Francisco to San Jose route continuously since 1864, with ridership reaching an all-time peak of 9.5 million in the 1940's and declining to 4.3 million in 1977.

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In 1977, the Southern Pacific Transportation Company (Southern Pacific), which operated the PCS, applied to the Interstate Commerce Commission for permission to completely discontinue the service, citing increasing financial losses. But, rapidly increasing gasoline prices, coupled with periodic fuel shortages and continuing highway congestion, had focused public interest on the necessity of preserving the service. Chapter 1216, Statutes of 1977, authorized the Department of Transportation (department) to negotiate and contract with the Southern Pacific to provide passenger rail service.

In July 1980, the department entered into a purchase-of-service agreement with the Southern Pacific to subsidize the San Jose-San Francisco commuter rail service for ten years. The required funding for operations comes from the department, the City and County of San Francisco, the San Mateo County Transit District, the Santa Clara County Transit District, and the federal Urban Mass Transportation Administration. Under the purchase-of-service agreement, the Southern Pacific operates the trains, but the state and local governmental agencies administer the service through cooperative agreements. After the grants of the federal Urban Mass Transportation Administration are deducted from the operating deficit of the PCS, the department pays 50 percent of the net operating deficit while the three counties pay for the remaining 50 percent according to a percentage formula.

From 1981 through 1986, the PCS carried over 32 million passengers. In May 1984, the department implemented a peak-hour bus shuttle to the San Francisco Financial District for PCS riders and has developed a joint monthly pass with the three transit operators to facilitate the interchange of passengers between trains and buses.

In addition to its support of commuter-passenger service on the PCS line, the State has also supported intercity rail passenger service. As a result of the Rail Passenger Service Act of 1970 (Amtrak Act), federally funded intercity rail passenger service was initiated in 1971, operated by the National Railroad Passenger Corporation (Amtrak). Supplementing Amtrak's system are a number of trains supported by the State under the provisions of the Amtrak Act (Title 45 of the United States Code, Section 563(b)), which allow states to contract with Amtrak for services not included in its basic system. The State currently supports the Amtrak service on two routes within California: one route connects the San Joaquin Valley with the San Francisco Bay area (with connecting bus service to Los Angeles), and the other route connects San Diego with Los Angeles. From fiscal year 1980-81 through fiscal year 1985-86, the State contributed

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\$21.6 million to support the operations of these two routes. During this time, the number of passengers totaled 8.7 million. The State also paid an additional \$5 million for various capital projects, including station improvements and equipment purchases.

Scope and Methodology

The purpose of this audit was to review the State's support of commuter-passenger service on the PCS line. We examined accounting and other records of the department to summarize the operating and capital expenditures of the PCS. We obtained operating statistics for the PCS, BART, and the San Diego Trolley to analyze the performance of each of these services. We also obtained operating statistics for commuter lines in the Chicago and New York areas. When we compiled operating statistics of the various transit services, we did not analyze the composition of revenues and expenses that these services reported. Finally, we obtained an opinion from the Legislative Counsel on the State's requirement to provide police services at the state-owned train stations of the PCS.

State Subsidies for the Operations of the Peninsula Commute Service

Since the beginning of the State's support of the PCS in 1980, the PCS has operated under deficit conditions. From fiscal year 1980-81 to fiscal year 1984-85, total revenues for commute services amounted to \$40 million while total expenses amounted to \$109 million, resulting in a net deficit of \$69 million. The Southern Pacific, as part of the purchase-of-service agreement, contributed \$2 million towards the deficit while the federal Urban Mass Transportation Administration contributed \$10 million towards the deficit. The State has spent \$28.5 million to pay for approximately half of the remaining deficit while the San Francisco Municipal Railway, the San Mateo County Transit District, and the Santa Clara County Transit District collectively have spent a total of \$28.4 million (this latter amount is not equal to the portion paid by the department because the department collected some revenues separately that had to be credited to the Southern Pacific). In addition, from fiscal year 1984-85 through fiscal year 1986-87, the State spent an additional \$3.2 million in subsidies for the maintenance of train stations, for marketing, and for the Peninsula Pass and Bus Shuttle programs.

For fiscal year 1985-86 and for fiscal year 1986-87, we estimated that the State will spend an additional \$11.5 million to subsidize the operations of the PCS.

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State Subsidies for the
Capital Expenditures of the
Peninsula Commute Service

As part of its program to improve the PCS, the State has spent over \$50.5 million on capital projects. The State spent part of these funds on new locomotives, passenger cars, and train stations and also on train station improvements such as landscaping and new parking lots. For example, the State purchased 73 new passenger cars and 18 new diesel locomotives. The State's share of the costs for this equipment was \$28.8 million. By 1985, the 18 locomotives and 63 of the 73 passenger cars were in service. As of September 1987, the 10 remaining passenger cars were in service. Section 14060 et seq. of the California Government Code allow the department to undertake sale and leaseback arrangements with new rolling stock. The benefit of such a program is that income tax depreciation rights on purchased rolling stock may be transferred to private companies for a negotiated sum. The State has realized over \$5.1 million from the sale and leaseback of the 63 passenger cars and 18 locomotives and has realized \$1.4 million for the sale and leaseback of 8 of the 10 additional passenger cars.

As of June 1987, the State has also acquired 11 of the 26 stations on the PCS route. The cost of the stations, including appraisal costs, was \$11 million. In addition, the State spent \$4.7 million for boarding-area improvements, building restoration and rehabilitation, new parking lots, and lighting and landscaping projects. Finally, the remaining \$6 million was spent on other capital projects, including track improvements, consultant contracts, and the purchase and painting of Southern Pacific gallery cars.

Capital expenditures for PCS projects through fiscal year 1986-87 total \$115.7 million. Of this amount, \$65.2 million consisted of federal funds.

The Performance of the
Peninsula Commute Service
and Other Transit Services

We analyzed the performance of the PCS, BART, and the San Diego Trolley, Inc., from fiscal year 1983-84 through fiscal year 1985-86 based on operating statistics reported by these services. Attachment 1 shows the results of our analysis of these operating statistics. For each service and for each of the three years, the attachment shows the total number of passengers and presents the farebox recovery rate. (Farebox recovery is the percentage of operating costs that the service

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recovers through fare revenue.)* In addition, the attachment presents the operating cost per passenger, and the average number of passengers carried per car for each hour and each mile of operation.

For the three years we reviewed, only the San Diego Trolley, Inc., had a consistently high farebox recovery rate, ranging from 79 to 89 percent. The PCS and BART farebox recoveries were below 40 percent. Section 14031.9, subdivision (b) of the California Government Code requires that any existing commuter service maintain a farebox recovery rate of at least 40 percent during the previous year of operation to be eligible to receive state funds.

The California Transportation Commission approved the waivers of the 40 percent recovery requirement for the PCS for three years. Since legislation does not allow waivers to exceed three years, the PCS would have to meet the 40 percent recovery requirement for fiscal year 1986-87. However, Section 14031.10 of the California Government Code, enacted in 1986, allows support from local governmental agencies, in addition to fare revenues, to count towards meeting the 40 percent recovery requirement. According to the department's director, the participating local transit districts have agreed to contribute additional fare revenues to ensure that the PCS fulfills the requirement for continued state funding.

Over the past three years, the PCS has shown an increase in its number of passengers from 5.2 million passengers in fiscal year 1983-84 to 5.5 million passengers in fiscal year 1985-86. In addition, the operating cost per passenger has consistently decreased from \$4.59 in fiscal year 1983-84 to \$4.25 in fiscal year 1985-86. According to the chief of the District 4 Rail Management Branch, this decrease is primarily due to the department's purchase of new locomotives and passenger cars and the introduction of push-pull service (push-pull operation eliminates the need for trains to be turned at terminals). Attachment 2 presents some operating statistics for out-of-state commuter services.

*According to the chief of the District 4 Rail Management Branch, the composition of operating costs for the different transit services may not be the same. For the PCS, for example, operating costs include property tax expenses while for the other services, operating costs may not.

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The Role of the State Police
In Providing Security for the
Peninsula Commute Service

For fiscal year 1985-86, the department entered into an agreement with the California State Police Division (State Police) of the Department of General Services to provide police services at state-owned train stations on the PCS line. The total contract amount for police services was \$50,000.

The department decided not to renew the contract for the following year because it determined that primary police responsibility for protecting state property that is not occupied by state employees rests with the local city or county jurisdictions. According to the department's director, the Attorney General's opinion, on which the legal determination was based, was issued on July 19, 1985, after the first interagency agreement was signed. In addition, according to the department's legal division, providing State Police services could be construed as an attempt to provide a higher level of service for the PCS commuters than for other citizens and could, therefore, constitute an illegal and unconstitutional contract in violation of the equal protection due to all citizens under the law.

Further, the department noted that in addition to local police authorities who have always had primary responsibility for protection along the PCS route, the Southern Pacific maintains its own police force to protect its property and employees.

Finally, we obtained an opinion from the Legislative Counsel to determine whether the State is required to provide police services at train stations that it owns. According to the Legislative Counsel, the State is not required to provide police services at state-owned train stations if the State (specifically the directors of the Department of General Services and the Department of Transportation) determines that local police protection is sufficient to protect persons using the stations and the station property itself. However, the Legislative Counsel also concluded that the State would not violate the equal protection clauses of the United States or California constitutions if it provided additional police protection at state-owned train stations.

Conclusion


From fiscal years 1980-81 through 1984-85, the State spent over \$28 million to fund the operations of the Peninsula Commute Service. We estimated that the State will spend an additional \$11.5 million for

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fiscal years 1985-86 and 1986-87. Further, the State spent \$50.5 million from fiscal year 1980-81 through fiscal year 1986-87 to fund various capital projects for the PCS, including the purchase of stations, locomotives, and passenger cars. Furthermore, the PCS has shown an increase in its number of passengers from 5.2 million passengers in fiscal year 1983-84 to 5.5 million in fiscal year 1985-86. During the same period, the operating cost per passenger decreased from \$4.59 to \$4.25. Finally, according to an opinion from the Legislative Counsel, the State is not required to provide police services at state-owned train stations on the PCS line if it determines that local police protection is sufficient to protect persons using the stations.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully Submitted,


for THOMAS W. HAYES
Auditor General

Attachments

Business, Transportation and Housing Agency's response to this report.

OPERATING STATISTICS FOR THREE COMMUTER SERVICES
FISCAL YEAR 1983-84 THROUGH FISCAL YEAR 1985-86*

	<u>Fiscal Year</u>	<u>Peninsula Commute Service**</u>	<u>Bay Area Rapid Transit District***</u>	<u>San Diego Trolley, Inc.***</u>
Total passengers	1983-84	5,159,562	58,277,463	6,271,000
	1984-85	5,305,373	60,798,419	5,965,229
	1985-86	5,458,370	58,894,468	7,082,611
Farebox recovery	1983-84	34.8%	39.7%	79.8%
	1984-85	35.3%	37.9%	86.3%
	1985-86	36.3%	38.1%	89.1%
Operating cost per passenger	1983-84	\$4.59	\$2.83	\$0.79
	1984-85	\$4.44	\$2.93	\$0.93
	1985-86	\$4.25	\$3.25	\$0.88
Passengers per car hour	1983-84	74.36	53.43	61.11
	1984-85	77.94	54.10	58.13
	1985-86	85.96	51.79	66.53
Passengers per car mile	1983-84	2.20	1.95	3.81
	1984-85	2.36	1.98	3.65
	1985-86	2.52	1.93	3.87

*According to testimony by a member of the Board of Directors of the San Mateo County Transit District before the Metropolitan Transportation Commission on May 27, 1987, the roles and capabilities of a heavy commute rail system such as the PCS differ from that of a rapid transit system such as BART. Heavy commute rail systems are used to provide fast service, usually for fewer passengers, over relatively long distances while rapid transit systems provide frequent rail service for many passengers over relatively short distances.

**Source: Section 15 of the reporting forms to the federal Urban Mass Transportation Administration.

***Source: The State Controller's annual reports of "Financial Transactions Concerning Transit Operators and Non-Transit Claimants Under the Transportation Development Act."

OPERATING STATISTICS FOR OUT-OF-STATE COMMUTER SERVICES
1984 THROUGH 1986

	Year	Burlington Northern	Chicago & North Western	Northeast		Long Island Rail Road
				Illinois Railroad Corporation (NIRC)/ Milwaukee District	NIRC/ Rock Island	
Total passengers	1984	11,830,526	21,668,839	8,119,406	5,974,778	*
	1985	12,202,642	21,774,576	8,454,860	6,460,124	*
	1986	*	*	*	*	95,977,000
Operating cost per passenger	1984	\$2.95	\$3.22	\$3.97	\$4.26	*
	1985	\$2.82	\$3.45	\$3.73	\$3.87	*
	1986	*	*	*	*	\$4.91

The Burlington Northern Railroad operates diesel powered commuter service seven days a week in the Chicago region for a distance of 38 miles. The Chicago & North Western operates diesel-powered commuter service seven days a week on three lines in the Chicago region for a distance of 158 miles. The NIRC/Milwaukee District operates diesel-powered commuter service seven days a week on two lines in the Chicago region for a distance of 89.3 miles. The NIRC/Rock Island District operates diesel-powered commuter service seven days a week in the Chicago region for a distance of 46.9 miles. The data for the Chicago lines were provided by L.A. Brophy & Associates, Inc., Transportation - Logistics - Management Consultants.

In addition, according to a report entitled "Jane's Urban Transport Systems, 1987 Sixth Edition," the Long Island Rail Road operates commuter service in the New York area for over 320 miles. Electric trains provide service on lines in New York State, Nassau, and Suffolk Counties while remaining services are diesel-hauled. The data for the Long Island Rail Road were provided by the Office of the Inspector General of the Metropolitan Transportation Authority, State of New York.

*Data not available.

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September 28, 1987

Mr. Thomas W. Hayes
Auditor General
Office of the Auditor General
660 J Street - Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

"A Review of The State's Support of The
Peninsula Commute Service"

We have reviewed the above draft report on the State's support of the Peninsula Commute Service (PCS). The report does not contain any recommendations; consequently, no action is required by Caltrans. The Department has reviewed and concurs with the statistical data reported in the Auditor General's report.

If you have any questions, please feel free to call me.

Sincerely,


JOHN K. GEOGHEGAN
Secretary